

TRADEMARK TROLLS: MISUSE OF TRADEMARK RIGHTS AND SIGNS LACKING DISTINCTIVE POWER - NOTES FROM THE FREE COMPETITION PERSPECTIVE

João Marcelo de Lima Assafim

I - Preamble

The study of intellectual property roles is an important instrument for delimiting the holder's powers. It is a relevant element regarding the definition of the scope of the holder's "legal power", which, therefore, determines the dimension of the regular exercise of the right, and of what exceeds this exercise, characterizing the misuse.

The regular exercise of a right is characterized by exclusive rights with two branches, i.e., the positive right to use (business branch) and the negative right to exclude third parties (or *ius prohibendi*). In European law, it is described by the immaterial property (Imaterialgüterrecht) and competition theory, and in Anglo-Saxon Law, it is designated by the notion of exclusive rights. Undoubtedly, such powers go beyond those that define the right born out of the institute of property (*proprietas*), built on possession, characterized by a positive right to use the material and corporeal property or thing (*res*), which is enough, by itself, to exclude third parties. It is worth mentioning the discrepancy between the institutes called "property rights" and "propriedade" (the Portuguese word for *proprietas*), which are not synonyms.

Firstly, intellectual property is an asset and, as such, it may be appropriated. The appropriation upon property attribution must occur in each country, following the applicable provisions of each respective constitutional system.

The regular exercise of intellectual property rights tends to work as cornerstone for development policies based on the induction of innovation, causing a pro-entrepreneur effect, and leading to more consistent economic growth levels than those seen in the commodities market with identical or homogeneous products. However, the misuse of this regular exercise towards a situation of abuse, to the contrary, may cause an anti-entrepreneur effect, reducing innovation and harming the purposes of the development public policies. In some national jurisdictions, some of these cases may be understood as exclusionary practices and ruled by the vertical restraints regime, while in others the abuse of the petitioning right may be considered "sham litigation"

(somehow alike the “sham” exception of the Noerr-Pennington immunity). Therefore, the situations of misuse tend to generate distortions to the free competition and must be fought by the institutions and institutes dedicated to social control and by the policy maker.

In case of antitrust violations, the path walked by the conduct that restricts competition against the exercise of intellectual property rights crosses several stages. Most of the conducts are private issues and solved by other fields of law: trade secrets, patent violation, unfair competition, etc. Nevertheless, some important competition restrictions may occur upon unilateral conducts (such as in cases of abuse of a dominant position¹ - or market power -, without collusion or agreements among competitors), but may also occur upon horizontal (in the case of cartels and other agreements among competitors), and vertical agreements (e.g. technology transfer and franchise agreements, selective distribution agreements among agents located in different levels of the production scale). In the first stage, the matter is always related to the delimitation of the relevant intellectual property right (industrial property or copyright, as applicable) itself: whether there is or not a protection and whether the exercise of the relevant right occurs out of this scope (which must always be construed restrictively; the hyperbolic interpretation of exclusive rights being illegal).

Therefore, the misuse of right is the starting point of a relevant scale, which begins with private acts and agreements (exercise of right) and may reach the scope of the public interest along the production scale. This hypothetical progression allows us to infer the existence of another kind of scale – something like a “distortion scale” -, which begins with the misuse (of right) itself, and advances towards the civil notion of undue enrichment (of the relevant agent), may go through losses to third parties, and ends on the scope of civil liability. Thus, if it causes losses to competitors (upon client poaching), it may also mean “unfair competition”. But this scale does not stop at this point (made up of essentially private interests). The illegal action may exceed the violation of private interests and finally affect, somehow, the public interest - notably consumers’ interests - upon increase of costs for consumer research or overpricing resulting from the inefficiency in resource allocation. Therefore, if the client poaching - effectively or potentially - affects the market (whether by concentrating its structure, or regardless of that, imposing the loss - cost - to customers of the monopoly’s dead weight, or the socially unfair situation of

¹ HERNÁNDEZ RODRIGUEZ, F. , *Prohibición de abuso de posición dominante en el mercado*, in: BELLO MARTÍN-CRESPO, M.P. e HERNÁNDEZ RODRIGUEZ, F. , *Derecho de la Libre Competencia Comunitario y Español*, Navarra, Aranzadi, 2009, p. 113.

scarcity), the relevant abuse falls into the scope of competition laws, or simply into the antitrust legislation².

The question is: should the situations involving misuse of intellectual property rights (IPR) that restrict free competition be subject to the static analysis of price competition on price or to the analysis of dynamic competition in the technology and innovation markets? In the second case, should the antitrust static analysis - over price - be used to justify the shelving of an investigation about the abusive exercise of intellectual property rights due to lack of evidence?

Therefore, we can establish a “scale of distortions” that begin with the misuse of right, go through the undue enrichment, and may end within the competition violation.

The competition law punishes holders of intellectual property rights that do not exploit, in a normal way, their exclusive rights and, therefore, cause a restriction to free competition³. The antitrust cases of restrictions caused by the exercise of intellectual property rights are common in the USA and in the EU. However, there are relatively few references⁴ to cases tried by the

² FORGIONI, P. Os Fundamentos do Antitruste, 2ª Ed., São Paulo: Editora Revista dos Tribunais, 2005. GABAN, E.M. E DOMINGUES, J. O., Direito Antitruste, São Paulo: Saraiva, 2012.

³ “Le droit de la concurrence sanctionne les titulaires de droits de propriété intellectuelle qui n’exploitent pas normalment leur droit exclusif et qui provoquent ainsi une restriction de la concurrence. » MARÉCHAL, Camille, Concurrence et propriété intellectuelle, Paris, Litec, 2009, pp. 85 e ss.

Le droit de la concurrence sanctionne les titulaires de droits de propriété intellectuelle qui n’exploitent pas normalment leur droit exclusif et qui provoquent ainsi une restriction de la concurrence. » MARÉCHAL, Camille, Concurrence et propriété intellectuelle, Paris, Litec, 2009, pp. 85 e ss.

⁴Until now, it is worth highlighting the Box 3 Vídeo case, which adjudged the party for abuse of petitioning right with anticompetitive effect. In the administrative process nº 08012.004283/2000-40, the plaintiff was the Commission for Protection of Consumers, the Environment and Minorities of the Chamber of Deputies, and the plaintiffs were Box 3 Vídeo e Publicidade Ltda. and Léo Produções e Publicidade. Although the Economic Law Office (SDE) decided for the lack of evidence, the mandatory appeal was granted by the Board of CADE. The decision of the board was as follows: “*The Board unanimously granted the mandatory appeal and ordered Box 3 Vídeo to pay a fine of one million seven hundred seventy-four thousand three hundred and twelve Reais and sixty-six cents (BLR1,774,312.66), and to publish the descriptive statement of the adverse judgement, as per the opinion of the Rapporteur Member, for violation of competition laws, pursuant to articles 20 and 21, IV and V, of Law nº 8,884/94. The*

Brazilian Antitrust Authority (CADE) that can indicate a clear criterion for analyzing misuse of intellectual property rights. Anyhow, the mere opening of an investigation (whether it is a preliminary investigation in accordance with the legislation in force at the time, or an administrative investigation – *inquérito administrativo*, i.e., an administrative procedure – *processo administrativo*) of cases that examined the exercise of intellectual property rights, instead of the discretionary shelving that happened in other times (by a single policy maker and before the evidentiary stage), demonstrates a change of attitude of the authority in charge of enforcing competition rules.

II - Intellectual property roles

Intellectual property roles are mainly based on social and economic aspects. Many authors seek, using this path, to justify granting exclusive rights to the holder. More than that, the literature points out that authors go beyond the mere intent - or an academic exercise - in that sense, and uses the roles (*função*) as instruments to support court decisions when making the title and the exercise of “exclusive rights” compatible with principles that protect public interests, such as free circulation of goods in the EU⁵, or the notion of free enterprise in Brazil. However, they also have a political content guided by a philosophical vector that is nothing more than the consumers’ and the society’s welfare; such political content being denied by part of the Anglo-Saxon literature. Therefore, the public interest is subject to social control and at this point, it agrees with other subjects, such as the Competition Law.

Therefore, although IPRs are private rights, and as so IPRs are strictly limited in order to ensure their - regular or abusive - exercise do not generate, against society, an adverse effect that is inconsistent with the intellectual property rights’ roles, i.e., the right’s features that enable the identification of roles used to induce economic activity and growth, offer increase, consumer welfare, freedom to do business, employment increase and, finally, development. Finally, the protection is not meant to protect the fame of trademarks or the investment itself, but their pro-entrepreneur effect. Therefore, all anti-entrepreneur effects deriving from distortions in the exercise

sentence shall be executed within thirty (30) days. It has also been ordered that SDE initiates an administrative procedure, according to the suggestions presented by the Federal Prosecution Office and by PROCADE (Specialized Prosecution Office acting with CADE) in order to assess if other individuals or legal entities (such as Luiz Galebe, Leo Produções, Shop Tour Internacional, etc.) have also committed these acts.”

⁵ FERNÁNDEZ-NOVOA, C., Tratado sobre Derecho de Marcas, Marcial Pons, Madrid, 2004, page 67.

of such rights must be fought using the proper social control tools.

Notwithstanding that, it could be said that the public and private law areas related with competition are not antagonistic⁶. On the contrary, both the rules governing loyalty in competition and governing intellectual property rights in general on one hand, and the rules governing free competition on the other hand, have the purpose of increasing dynamic competition, encouraging the economic activity with all its pro-entrepreneur effect. Considering this premise, the restrictive exercise of such powers - causing an anti-entrepreneur effect - must be understood as a deviation from the role and, therefore, a dysfunction.

The analysis above is fundamental for distinguishing the regular exercise situations from those of abusive exercise of intellectual property rights. The first step of this work is delimiting the powers granted by the Law to each category of IPR, each type of exclusive right, and from the delimitation of the legal scopes, we must determine which situations lead to the regular exercise of the right.

In that sense, from the delimitation of powers of the rights' holders, the acts exceeding such scope will lead, to the contrary, to the deviation of the intellectual property's role or to misuse of right (see, for example, the misuse doctrine⁷).

III - Trademark's roles

Trademark's roles, as the other IPR'S roles, are built on the

⁶Regardless of the relevant notes about obscure points of this interaction that, for some jurists, may be conflictive, even today. FIALA, Donatella, *Das Verhältnis zwischen Immaterialgüter- und Kartellrecht*, Bern, Stämpfli, 2006, pp.1-3. „*Das verhältnis zwischen dem Immaterialgüterrecht und dem Kartellrecht ist konfliktrichtig.*“

Das Verhältnis zwischen Immaterialgüter- und Kartellrecht: unter dem Blickwinkel des Missbrauchs einer marktbeherrschenden Stellung sowie der Entwicklungen im Bereich der Genpatente, Bern, Stämpf Verlag, 2006, pp. 2 e ss. Para esta autora, em contraste com a concepção estadounidense, „*Das verhältnis zwischen dem Immaterialgüterrecht und dem Kartellrecht ist konfliktrichtig.*“

⁷ WEBB, J.M. e LOCKE, L., *Intellectual Property Misuse: Developments in the Misuse Doctrine*, Harvard Journal of Law and Technology, vol. 4, 1991, p. 257. “The doctrine of intellectual property misuse has its origins in the patent misuse doctrine. ent misuse is an affirmative defense to a suit for patent infringement or for royalties due under a patent licensing agreement. The doctrine developed and matured prior to the development of any significant body of federal antitrust law, as a judicial response to perceived anticompetitive practices of patent owners.”

foundations of a social and economic analysis.

For a long time, trademark's roles were not a concern of jurists of the European Continental Law⁸, nor of the systems that adopt the Romano-Germanic civil conception. Common law, on the contrary, when using its rule of reason, ends up using the economic analysis as a part of legal interpretation.

The study of trademark's roles is a long task, and this work does not intend to analyze all aspects of this matter. However, we acknowledge that trademark's roles are a valuable instrument for interpreting rules that delimit the holder's powers.

There are several studies about trademark's social and economic roles, notably in the EU, after the examination of cases by the CJEU (Court of Justice of the European Union) under article 85.1 of TEC (Treaty of the European Communities) (which later became article 81.1, and currently had its number changed to article 101.1⁹), which are necessary to make the exercise of IPR compatible with the principle of free circulation of goods¹⁰. In the US, the creation, in 1982, of the U.S. Court of Appeals for the Federal Circuit, with exclusive jurisdiction for patent cases - a species that is a reference to the genus (industrial property) -, had a particular meaning for the jurisdictional policy.

The purpose of studying the trademark's roles is the economic analysis of the exercise of rights starting from the delimitation of the relevant powers (legal power scope) that are part of the exercise of such intellectual property rights (IPRs), and finally, the public domain dimension. Therefore, we initially ask about (1) **the scope of enforcement of exclusive rights** and, in their absence (whether due to their expiration, or due to the choice of the holder of controller of the immaterial "property" for the non-protection by exclusivity), whether for the incidence of (intrinsic or extrinsic) limits of IPRs,

⁸ « Antes de exponer las funciones de la marca, parece oportuno aludir al importante papel que la marca desempeña en la esfera económica. La importancia de este papel ha sido acerdadamente subrayada por el Memorandum que sobre la creación de una marca comunitaria publicó en 1976 la Comisión de las Comunidades Europeas. En este documento se resalta de manera expresiva el papel informativo que la marca debe cumplir en el seno del Mercado Común. (...) En el Memorandum se mantiene a ese respecto la tesis de que la marca es precisamente el mecanismo que hace posible la identificación y subsiguiente selección de los productos. Y se llega a la conclusión de que la marca es el único medio que por permitir elegir los productos a través de su identificación, hace posible que la oferta de productos de una misma clase sea transparente para el consumidor. FERNÁNDEZ-NOVOA, C., Tratado sobre Derecho de Marcas, Marcial Pons, Madrid, 2004, p. 66.

⁹ RIBMANN, Karin, Die kartellrechtliche Beurteilung der Markenabgrenzung, München, Herbert Utz Verlag, 2008, pp. 28-39.

¹⁰ *Ibidem*.

(2) **the delimitation of the scope of the provisions against unfair competition.** Finally, from such limits, we can infer, based on the powers of the IPR's holder, the dimension of the freedom of enterprise of the other competitors and participants, and thus we can gather the essential elements for fighting misuses (protection of essentially private interests), and notably those with anti-competitive effects (protection of essentially public interests). In this last aspect, the social control will occur upon enforcement of antitrust rules. In that sense, it is important that the relevant authorities do not refrain themselves from examining cases presented to them, i.e., that they analyze on the merits of the case and render an adverse judgement, or decide for shelving the case, but in this last case, they should define the criteria and requirements (notably indicating that the "test" stage has not been overcome). Firstly, in trademark law, the purpose of a competitive operation of the market is through the validity conditions or legal requirements, the extension of protection and the obligation to exploit¹¹ locally the IPR.

IV - Requirements for obtaining the right

Intellectual property is a **legal regime** established for immaterial property legally susceptible to a special protection granted by a certain jurisdiction (automatic - declaratory on one hand, or **upon registration - public-attributive** -, on the other hand, as applicable), in accordance with the provisions of copyrights law (**declaratory system**) and of the industrial property (**attributive system**)

From the expression "special protection" we do not infer an automatic protection to all (or several) national systems, but a protection upon grant of exclusive rights limited by the territory. This category encompasses certain realities that are products of **men's intellectual creation**, being susceptible to exterior manifestation and that can be **monopolized**¹² somehow. It is a right that characterizes, for example, the main element that enables e-businesses, which the antitrust literature calls "new economy"¹³, and is built on the

11 En droit des marques, l'objectif de fonctionnement concurrentiel des marchés est présent au travers des conditions de validité (A), de l'étendue de la protection (B), et de l'obligation d'exploiter le signe (C). MARÉCCHAL C., Concurrence et Propriété Intellectuelle, Litec, Paris, 2009, pp. 273 e ss.

12 KOHLER, J., Deutsches Patentrecht, Mannheim-Strasbourg, 1878. GÓMEZ SEGADÉ, J.A., El secreto industrial (know-how): concepto y protección, Madrid, 1978.

13 POSNER, R., Antitrust Law. 2nd Ed., Chicago / London, Univ. Chicago Press, 2001, pp. 408 e ss.

intellectual property rights. Trademark, as a species of the genus industrial property (rights) is a right whose formation is subject to the attributive regime¹⁴, thus depending on a grant act by the government (administrative act) in each jurisdiction of interest.

Initially, the first requirement is the distinctive character¹⁵ (it must distinguish the species without designating the genus). Otherwise, the irregular appropriation of public domain would be possible. It would indeed be a dysfunction of the trademark system.

Since trademark protection fundamentally depends on the distinctiveness (or distinctive character) of the relevant sign, the analysis of misuse cases begins here. At the same time, the visual perception requirement (a sign that can be visually perceived - optional requirement for national jurisdiction under TRIPS), and the territorial limitation of the rights that grant right to the first application filed locally deserve attention. Therefore, the property attribution requirements comply with three principles, as follows: (1) priority; (2) specialty; and (3) territoriality.

Civil law's attributive system is built on the first to file principle. Regarding this principle, the birth of a right to a trademark occurs (it emerges on the surface of the "legal reality") with the filing of the sign before the relevant authority, in the territory of the respective jurisdiction (country), regardless of this sign having been used prior to the registration by the holder

¹⁴ Law n° 9,279 of May 14, 1996 (Brazilian Law of Intellectual Property - LPI) sets forth that: Article 129. The property of a mark is acquired by means of registration, when validly granted pursuant to the provisions of this Law, and its exclusive use throughout the national territory is assured to the titleholder, with due regard, as to collective and certification marks, to the provision in Articles 147 and 148.

Paragraph 1. Every person who, in good faith on the priority or filing date, has been using an identical or similar mark in this country for at least 6 (six) months to distinguish or certify an identical, similar or alike product or service shall have the right of preference *for the registration*

Paragraph 2. The right of preference may only be **assigned together with the business of the company**, or part thereof, that has a direct relation with the use of the mark, by transfer or leasing.

¹⁵ "L'article L. 711-2 du Code de la propriété intellectuelle interdit de choisir une marque composée exclusivement de signes ou de dénominations 'pouvant servir à désigner une caractéristique du produit ou du service, et notamment l'espèce, la qualité, la quantité, la destination la valeur, l'origine géographique, l'époque de la production du bien ou de la prestation de service'. Non seulement ces signes ne sont pas propres à exercer la fonction de marque, mais ils doivent rester à disposition de tous les opérateurs du marché". MARÉCHAL C., MARÉCHAL, Camille, Concurrence et propriété intellectuelle, Paris, Litec, 2009, pp. 273 and 274.

in the market where the protection is requested¹⁶.

Upon public registration, the holder obtains, in addition to the positive right to use, the negative right to exclude third parties. This negative right, or *ius prohibendi*, is also known as an exclusionary right that may be enforced by the holder to exclude or prevent competitors' products and services from entering the market. The exclusion may occur provided that such products or services (class of activity) are equal or similar (specialty principle), can replace each other, have identical trademark signs, or similar to those protected by the exclusionary right. The trademark classification delimits the protection as a corollary of free enterprise and free competition. It is not an absolute domain over any and all uses of the sign. On the contrary, such right is not binding upon the use of products and services that cannot replace the protected products or services. From the economic point of view, products whose 'crossed relation of demand is inelastic' are not substitutes, i.e., there is no risk of consumers (or purchasers) being confused, nor of client poaching. This is the reason the specialty principle exists.

Accordingly, free competition is the grounds for the restriction of legal powers granted to a holder of trademark right, since the right does not - and could not - grant a legal monopoly over a sign to a holder that is not interested in entrepreneurship. Otherwise, the holders' interests would lie more on the violation (since the income would derive from violations and damages derived from lawsuits) or disturbance of efficient competitors' rights than on the freedom of enterprise (working as true "trademark trolls").

Then, two different products (and/or services) destined to different audiences, for trademark protection purposes, tend to be separated by the products and services classification and, therefore, may present similar - or even identical - distinctive signs as trademarks. Both will peacefully coexist in the market. This occurs, for example, with the dainties "Biscoito Globo" and the TV broadcaster "TV Globo", both from the State of Rio de Janeiro. Both trademarks coexist in the Brazilian market without any risk of client poaching.

The protection scope is territorial. Therefore, the exclusionary right granted by a State to its nationals or domiciled persons is restricted to its own territory. Notwithstanding that, there is the national treatment granted to

¹⁶There are only three exception to the priority principle: 1) the unionist priority (term of six months counted from the claimed priority, as of the filing of the trademark application in another Member-State of the Paris Convention for the Protection of Industrial Property); 2) well-known trademarks (which, less than a trademark, is merely a standing to sue offered to the user without registration); and (3) the well-known trademark (for acknowledgement of a fact binding upon third parties within the protected market, in a customs union or in a reciprocity regime among countries).

foreigners domiciled in the territory where the protection is sought (see article 4 of Law nº 9,279 of May 14¹⁷, 1996 (Brazilian Industrial Property Law - LPI). The national legislation equates the domiciled foreigner to the national, but it does not do so regarding the non-domiciled person. The reason is that the latter (non-domiciled foreigners) are not subject to the same formalities as the nationals.

Therefore, the protection to rights of non-nationals coming from states that are members of the Paris Convention could not create a discrimination in favor of non-domiciled persons, to the loss of nationals and domiciled foreigners; Accordingly, article 2 of the Paris Convention for the International Protection of Industrial Property, which states that *(1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.* Accordingly, the national of a Member State of the Convention who is domiciled in Brazil has the same rights as a national, provided that all the same formalities applicable to them are met. Therefore, the non-domiciled non-national is out of the scope of this rule, without generating any benefit.

Thus, this is an extraordinary “legal power”, since it allows its holder to impose to a third party the abstention of use, preventing competition by imitation, even if it the intervention in someone else’s property is necessary. This negative right of exclusion, inherent to the immaterial property, exceeds the positive right to use exercised by the possession of the thing (or *res*) over the ownership interest in “corporal material property.” This power, when regularly exercised, is the basis of the “new economy” (of technological basis and related to the information society). Intellectual property rights - IPR have a major role in development policies based on innovation.

Thus, the negative right of exclusion (*ius prohibendi*) allows the creation of consume rivalry and, with that, provides means for the right’s holder to add value to their business methods using the relevant immaterial property. New business opportunities arise from that.

Therefore, for example, a small “inventor” of a “revolutionary” computer system (an application, an invention implemented by a computer

¹⁷Article 4 of LPI states that: Article 4. The provisions of treaties in force in Brazil are equally applicable to individuals and legal entities who are **nationals of or domiciled in this country.**

software, etc.) may create a new market and/or do business with already-established companies, and even “destroy” well-established old markets. This right is what ends up generating a pro-entrepreneur effect, and on the tip of the innovation process, the dynamic competition. However, if exercised with abuse (misuse), such exclusionary right (that integrates the IPRs) may also subject the other competitors to an increase of cost and, at the same time, may subject consumers to unjustified levels of structural concentration of the market and to the dead weight of monopoly.¹⁸

If, on one hand, the **scarce intellectual property** and the **abundant competition** damage the incentive to the intended pro-entrepreneur effect, on the other hand the **abundant intellectual property** and the **scarce competition** tend to produce a disastrous anti-competitive effect. This last case can be a result of a reckless “political choice” (and legislative), or of a situation of misuse of right (carried out by private entities). Let us see a brief introduction to the characterization of misuse of IPRs.

V - Misuse of right

The misuse of rights occurs when their holder exercises the right beyond the limits of faculties (its powers), which are confined by the scope of the “legal power”. The interpretation of rules governing the scope of intellectual property rights must be restrictive, with the prohibition of hyperbolic interpretation, since it would artificially restrict third parties’ freedom of enterprise and, eventually, the free competition¹⁹. The misuse of rights situations, specifically intellectual property rights – IPRs -, may be used by the agent with the purpose of excluding an efficient competitor²⁰.

In Brazilian Law, the misuse of right is originated from the civil law, and is set forth in articles 186 and 187 of the Civil Code of 2002. The notion is a broad category of practices carried out by a certain agent with acts performed **beyond** the faculties that are comprised in the scope of “legal power”. As an example of this distortion, we mention the misuse of powers by the exercise of said rights, such as the misuse of the *ius prohibendi*, i.e., the misuse that intends to exclude efficient competitors through an artificial way. In other words, considering the “problem”, for e.g., from the point of view of the so-called “new economy”, a competitor can use intellectual property for this

¹⁸ POSNER, Antitrust Law, page 22 et. seq.

¹⁹This situation, i.e., the restriction of powers comprised in the freedom of enterprise, violates article 170 of Brazil’s Constitution, where it is called free enterprise (livre iniciativa or liberdade de empreender).

²⁰ POSNER, Antitrust..., op. cit., page 424.

purpose in the same way that, in a traditional business (involving commodities, for example), a monopolist can use an exclusivity clause or a predatory conduct (whether by price, publicity or innovation) in order to create a barrier to entry or an exclusionary vector with the purpose of banishing efficient competitors. The investment of an IPR holder in the attempt to exclude the user of a sign, invention or copyright that is in the public domain.

Notwithstanding that, the structural conditions tend to require proof of the market power (which can be differentiated from monopoly power) in exclusionary practices. As the IPR is a right obtained with fraud or that does not exist such a proof may be dismissed (*vide* the Box 3 Video case).

For example, these categories of practices may occur upon exclusion acts performed based on an apparent *exclusionary right* but that, in fact, in light of the technical strictness, are more than so: a non-right. The purpose of the exclusion agent may be obtaining extraordinary gains that range from income with royalties resulting from licensing, through damages awarded in a lawsuit, to the creation of an inefficient barrier to entry serving the monopoly price without collusion (or agreement among companies).

A conduct like this can be performed by a certain holder of IPRs (positive right to use) - constituted or obtained - over immaterial objects of **common use** (invention in the state-of-the-art, signs without distinctive character, etc.), that integrate the **public domain** - if said person tries to use the positive right to use as a negative right to exclude of competitors. We can mention, among other exclusionary practices, the attempt to appropriate names registered in dictionaries, without distinctive character, for the relevant product or designated service. A common use sign, the generic can be characterized as such in a more specific situation, common use signs or vulgarized by the previous use by effective competitors in the same market. A situation of distortion may occur when a player appropriates the generic name associated with a trademark in order to file abstention actions against rivals. Another case of distortion occurs when there is the combination of signs with other categories of IPRs, such as a patent application for an old an already known solution (or a generic name), that is, as a matter of fact, an evergreen application, are used to raise rival's cost.

Here, we are not dealing with the levels of distinctive power of the signs. Our attention is focused on the generic signs (which describe the product itself - for e.g., the trademark "water" for a specific mineral water), and descriptive signs (which describe characteristics of the product, such as the word "diet" as a trademark for a diet beverage). A common use sign (without distinctive power) not only tends to have been used before by competitors, but also may have been subject to some level of prior protection (even if only to ensure positive rights to use). In this context, another category of misuse of

right commonly occurs within the industrial property area when the agent files the application for a trademark involving a sign that has already been protected, appropriated or used by competitors somehow, with the purpose of excluding the previous user (an equally or more efficient competitor) by the applicant (whether monopolist or not).

In this case, this kind of conducts that, as seen before, may also occur due to the common use (public domain) has three relevant aggravating circumstances: (1) being the result of an irregular **intention of appropriation**, whose basis is not recovering a legitimate investment in R&D or in marketing over the distinctive sign; (2) carrying out the intent of excluding the legal and previous use and/or subtracting rights from competitors; (3) the purpose of obtaining an extraordinary competitive advantage by monopolizing the reference known by the consumers and purchasers, and increasing the rival's costs. The combination of these factors will cause serious disturbances to the competitors.

Competition distortion situations may derive from misuse of the jurisdiction tools made up by legal actions provided to exclude (and, in addition to the abstention of use imposition, penalties for late penalties, damages calculated over the license analogy, and the controversial "damage for emotional distress"), and also attempts to generate income from the use by competitors, upon imposition of licenses (after extrajudicial notices during the course of the legal actions, or due to a "reputation" of being belligerent), it being certain that both situations tend to create "negative externalities"). Punitive damages are still not embraced by Brazilian precedents.

A natural reaction of competitors who are victims of monopoly is the **affirmative defense** (an antitrust suit or/and a injunction suit based on a judicial nullity declaration of the IPR title). As a rebut, it has been common in cases, the justification used by the defendant (pointed as a monopolizing agent - or the one committing the abusive exclusionary act²¹) is the investment on the sign used as a trademark²². That is, the economic agent tends to justify their attempt to appropriate a sign without distinctive character (descriptive or generic) due to the commercial investment on the sign (advertising, for example), which, by itself, would justify the exclusion of competitors. However, the plaintiff may consider the roll of the industrial property law to

²¹In responses to affirmative defenses, both in lawsuits for declaration of total or partial voidness against irregular or badly-limited protection, and in antitrust representations for unilateral conduct.

²²Normally presented to the administrative authority upon request of interested third parties. The procedural law ground is the Federal Administrative Process Law - Law nº 9,784, of January 29, 1999.

argue that IP does not protect the reputation itself, nor the means used to achieve it. On the contrary, legislations that list, among the trademark's roles, the protection of advertising investments, **do not protect the investment and the reputation by themselves** to the point of deserving an exclusionary right.

The protection is granted, thus, to the investment made in the enterprise of an efficient player. Therefore, the respective positive externality of such a business is the so called "pro-entrepreneur effect."

The investment is only legal if made in a legal object (thing or *res*). Therefore, this phenomenon (which, for the purpose of this work, is called "cornering") is seen especially when the investment is made in something illegal, rather than in a legal thing²³. In this case, the investment itself does not justify any kind of protection. On the contrary, allowing this would be like in situation of repossession, admitting justifications for the invasion, criminal trespass or disturbance, with the investment in improvements being made by the invader after the illegal occupation of the property. Cornering can involve private or public property²⁴. As an example of public property, there are all immaterial property forming the public domain: whether it is a sign without distinctive power, or an invention in the state-of-the-art.

In case of a sign lacking distinctive power (whether it is generic or descriptive), the use is legal, common to all competitors, and useful to consumers during their market researches that are prior to and guide their respective purchase decisions. However, on the contrary, attempting to appropriate a common property, i.e., the nominative sign used by the language to describe the product to be sold, or the sign with a figurative presentation that describes the characteristic or image of the relevant product would be illegal. If a situation of extravagant attempt of appropriation (economically unjustified, inefficient) by an economic agent (cornering), to the loss of the other competitors (equally or more efficient) is accepted by the Government (the Brazilian Patent and Trademark Office, for e.g.) without reservations or use

²³It may happen in the case of an appropriation attempt, by the applicant of a trademark application, of a generic sign that cannot be appropriated, for e.g., by the secondary meaning. If the trademark application made by applicant is baseless for being generic or it is descriptive, but already used by competitors before de application filed or the applicant's use and somehow protected in this way by these competitors, the exclusionary practice of a competitor on this ground may be a case of bad faith.

²⁴The attempt of cornering immaterial property in public domain is the same as the attempt to appropriate a source of inputs, which brings the phenomenon closer to the antitrust theory of essential facilities. In this aspect, there is point of contact with an important phenomenon regarding the industrial protection of background knowledge, such as the matter of "pattern" patents.

restrictions, this property attribution will probably lead to the use of the IPRs as an instrument serving an exclusionary conduct and, as a consequence, to the increase of costs of the consumers' choice.

Thus, the descriptive nominative sign presents a public interest, is used to designate characteristics of a certain market, a category of products or services (and not the product of a specific manufacturer), is associated with the respective trademarks of several manufacturers having an informative role regarding the relevant product or service, and has the purpose of helping consumers exercise their right to choose, since it reduces the consume research costs.²⁵ This sign cannot be appropriated by a competitor to the loss of the others.

If this sign lacking distinctive power (descriptive or generic) was appropriated by a competitor, to the loss of the others, it would make consumers confuse instead of distinguishing products or services of a market. For example, in the point of sale, the seller would not know if the client is looking for the category of the species, and the same thing would happen to new consumers, who would be confused and unable to distinguish one thing from the other.

For example, how could a consumer from Rio de Janeiro, when arriving in another state, distinguish a "Ice Cream Cake" (which, in a hypothetical situation, is an ice cream cake trademark) from other ice cream cakes? This would certainly be a difficult task. If, on one hand, the local consumer might consider the product in their mind as first designation, the situation is different in the relevant national market.

Therefore, a consumer coming from another state, for example, would not be able to decipher the information from the descriptive word the same way. It is quite likely that this supplier's choice to use a descriptive sign will lead to an increase of the costs of choice for consumers²⁶, who will not be able to identify the other competitors that easily. On the contrary, consumers will be confused regarding the genus and the species.

If this situation (confusion caused by the appropriation of generic and descriptive signs by a competitor) is confirmed, it may lead or at least collaborate to the creation of an impact vector in the structure of the relevant market, without having immediate influence over the price, but creating a concentration in cases the appropriation of the generic word works as a barrier

²⁵ As indicated before, the common use by competitors, in a certain relevant market, of descriptive and generic signs, helps consumers make a purchase decision with independency and find the goods they are looking for.

²⁶ Costs of consumption research.

to entry or as a vector to the increase of rival's costs. It is so because the other competitors, subjugated, must create new expressions to describe their products (such as, for e.g., "sweet delicacy made with flour and eggs, and served in low temperature" or "cold dessert"), especially bearing the cost of "teaching" consumers about the respective meanings of the new generic and descriptive words. In this last case, the increase of rivals' costs may occur in two other ways, notably upon licensing and "judicialization", or due to the need of a high marketing investment to promote the new standard word.

The priority, specialty, territoriality and distinctive character requirements arise from there. These core commands, which are undoubtedly fundamental for the desirable maintenance of the legal certainty of the industrial property system, were smartly instituted by legislators of all countries forming the international system (created by the Paris Convention for the Protection of Industrial Property, of 1883, and reinforced by the approval of GATT-TRIPS in December, 1994), which have also been confirmed by the Brazilian and foreign scholars. It is worth stressing the relevance of the first to file principle (attributive system, or first registration) in Section A.1, article 4, of the Paris Convention, to the regular right to industrial property.²⁷

VI - Bad faith: non-right as a form of misuse

The characterization of bad faith is still controversial. However, it is a well-known phenomenon to the business law scholars, observed in other subjects of the same area, such as regarding negotiable instruments in the Geneva Uniform Law, the Uniform Benelux Law on Trademarks (Belgium, the Netherlands and Luxembourg), and in both cases the characterization of bad faith is subject to the same criteria and requirements. Therefore, bad faith is: **knowledge about a binding fact.**

Since bad faith accusations require parsimony and technical strictness, we sought help from the work (*tesis doctoral*) of the Spanish professor²⁸ FRAMIÑAN SANTAS. Said author, defining bad faith as a

²⁷ BODEHAUSEN, G.H.F., Guia para la aplicación del Convenio de Paris para la protección internacional de la Propiedad Industrial, Revisado en Estocolmo 1967, Génève, BIRPI, 1969, p. 38.

²⁸ FRAMIÑAN SANTAS, J. La nulidad de marca solicitada de mala Fe: estudio del artículo 51.1.b) de la Ley 17/2001, de 7 de diciembre, de marcas, Granada, Editorial Comares, 2007, p. 18.

dishonest intention, recovers the first precedent from a case tried under *Reglamento (CE) número 40/1994 del Consejo (RMC)*, in the scope of community trademark, making the following considerations.

“El primer caso del que tenemos Constancia atinente al término mala fe del art. 51.1b) del RMC es el llamado caso Trillium. En este procedimiento, cuya lengua de tramitación era el inglés, la mala fe fue definida por la Primera División de Anulación del siguiente modo:

‘Bad faith is a narrow legal concept in the CTMR system. Bad faith is the opposite of good faith, generally implying or involving, but not limited to, actual or constructive fraud, or a design to mislead or deceive another, or any other sinister motive. Conceptually, bad faith can be understood as a “dishonest intention”. This means that had faith may be interpreted as unfair practices involving lack of any honest intention on the part of the applicant of the CTM at the time of the filing.’” (v. FRAMIÑAN SANTAS, cit, p. 18)

Continuing, the Professor, in his PhD thesis, sheds a light on the immediately subsequent decision (after the first precedent considered): the “Senso Di Dona” case, based on the concept created in the “Trilium” case, using a new example for the hard task of connecting the fact to the legal provision. Let us see:

“Example: If it can be shown that the parties concerned had been in contact, for instance at an **exhibition in the respective trade**, and where then one party filed an application for a CTM consisting of a containing the other party’s brand, there would be reason to conclude bad faith”

Therefore, if there is evidence that an implicated or involved party has had access to the other party’s trademark, for example, in the exhibition deriving from the respective trade (of course, in the same national or community competition system, we cannot presume knowledge where there are no exchange or direct competition relations), and afterwards said party files a trademark application including the first party’s sign, we can deduce the bad faith. **In a real case, for example, the element evidencing the “knowledge” about the other party’s trademark, would be, in principle, the impeditive priority within the same national (or community,²⁹if applicable) system, proven by the official publication of the Industrial Property Journal.** This

²⁹Or unitary competition system of a Customs Union, in which there is a supra-national industrial property system replacing the national system of the Member States, even if the interaction between both is admitted, as it happens with the community trademark OHIM (Office for Harmonization in the Internal Market).

evidence can be confirmed by acts of the first party after the filing.

Finally, bringing back the BE NATURAL case, the Iberic scholar says:

“La OAMI continúa con la tarea de definir el concepto de mala fe em el caso BE natural. La Primera División de Anulación repite em la resolución de este caso la doctrina del caso Trilium. Pero la completa de siguiente modo:

‘Bad faith can be understood either as unfair practices involving lack of good faith on the part of the applicant towards the Office at the time of the filing, or unfair practices base or **acts infringing a third person’s rights**. There is bad faith **not only** in cases where the **applicant intentionally submits wrong os misleadingly insufficient information** to the Office, but also in circumstances where he intends, through registration, to **lay his hands on the trade mark of a third party** with whom he had contractual o pre-contractual relations’ ” (no highlights in the original text)

It is clear, then, that bad faith is characterized as acts that violate third parties’ rights, such as the knowledge about a **binding fact that is intentionally hidden** from the relevant authority (whether the INPI, or the Judiciary Branch), but also as the circumstances that allow the agent in bad faith to “put their hands” on third parties’ trademarks. The decision above mentions the contractual relationships because they replace other evidence of the “knowledge” by the agent in bad faith, even in different competition system, as per the Uniform Benelux Law on Trademarks.

Therefore, the bad faith is clear when the agent tries to file a trademark application encompassing a competitor’s trademark and, afterwards, tries to use a legal action to exclude this same competitor that used the prior registration as if they were a wrongdoer, intentionally hiding from the relevant authorities the legal position (proprietary right) of this person.

In this cases, the control exercised by economic competition rules can be observed in the extrinsic limits of the industrial property. Antitrust, as a subject of free competition, defines the bad faith with anticompetition effects with the expression “sham litigation”. Let us see MICHAEL J. MEURER’S opinion.

Socially harmful IP litigation is common because the rights are easy to get and potentially apply quite broadly, and the problem is growing worse because of the expansion of the scope and strength of IP Law(...) Antitrust law provides a potentially powerful means of controlling socially harmful IP litigation.¹⁸⁶ Certain anti-competitive litigation violates Section 2 of the Sherman Act¹⁸⁷ under two related theories.¹⁸⁸ One theory originated in Walker Process Equipment, Inc. v. Food

Machinery & Chemical Corp.¹⁸⁹ and applies only to patent infringement suits. The antitrust claimant must show that the patentee got its patent by committing common law fraud on the PTO, and that the patent would not have issued but for the fraud.¹⁹⁰ The other theory applies to **sham litigation, including sham IP litigation**,¹⁹¹ and is based on a [*PG539] showing that the antitrust defendant (IP plaintiff) **knew that objectively there was no basis for the infringement claim**.¹⁹² Under either theory, the antitrust plaintiff must prove it suffered an antitrust injury, and must also show that the IP litigation created or sustained a monopoly in the relevant market.¹⁹³

Therefore, there is competition bad faith when the agent in bad faith files a lawsuit to exclude competitors, even knowing that their industrial property title does not grant them powers to obtain the exclusion, but for several factors (cost of the action, time required to overrule decisions, reinforcement of the belligerent “reputation, etc.), they do so due to the barrier to entry or the competitive advantage they may achieve against a competitor (efficient, in principle), even if temporarily.

VII - Undue enrichment

Undue enrichment in the civil law occurs when a player (individual or legal entity) has some profit that they should not have, in accordance with the loyal trade practices. In trade, this practice tends to be associated with a gain related to the attracting clients, taking parasite-like advantage of someone else’s investment (a free ride), and may actually be related to unfair competition practices (but it is not restricted to exclusively competition-related relations, e.g., it may happen by subtracting a point of sale or the respective property value due to an unbalanced vertical agreement). This is the first stage in the scale of distortions that may lead to competition restraints, whether upon illegal exercise, or violation of rights.

The phenomena related to the **violation of IPR**, as those related to the misuse of **IPR (exercise of rights)** may cause both situations. In cases of violation of intellectual property rights, for example, the undue enrichment of the agent of the conduct may lead to a reflex damage projected onto the victim’s property or income. In this case, the civil liability is applicable in order to compensate for the loss. Accordingly, if both sides of the coin are connected by a distortion in the private competition relationship based on client poaching, we are facing a case of unfair competition.

VIII - Damages and civil liability

It is known that one of the triggers of civil liability is the misuse of right, as set forth in article 187 of the Civil Code, transcribed below:

Article 187. The right holder also commits an illegal act when exercising it in clear violation of the limits imposed by its economic and social purposes, by good faith, or by morality.

When commenting the legal provision above, the literature indicates³⁰ that the “main ground of the misuse of right is preventing that the law is used as a form of oppression, preventing the right holder from using their power with a purpose other than the one it is meant for.”

Accordingly, acknowledging the existence of misuse when the holder crosses the limits of their right, the Superior Court of Justice decided as follows:

“PROCEDURAL AND ADMINISTRATIVE LAWS. SPECIAL APPEAL. LAWSUIT FOR EMOTIONAL DISTRESS DAMAGES. PUBLIC SERVICE CONCESSIONAIRE. NON-DEMONSTRATED COURT DISSENSION. ELECTRIC POWER SUPPLY. SUSPENSION. ALLEGED VIOLATION OF ARTICLES 186 AND 188 OF THE CIVIL CODE. DISMISSED. MISUSE OF RIGHT. EVIDENCE OF ILLEGAL ACT (ARTICLE 187 OF THE CIVIL CODE). DAMAGES GRANTED. JURISTS. THE SPECIAL APPEAL WAS PARTIALLY ENTERTAINED AND, IN THIS PART, DISMISSED.”
(...)

3. The right holder commits an illegal act when exercising it in clear violation of the limits imposed by its economic and social purposes, by good faith, or by morality (article 187 of the Civil Code) (...)

(Special Appeal 811690/RR – Superior Tribunal de Justiça / STJ -, Rapporteur Justice DENISE ARRUDA, FIRST PANEL, judgement on 5/18/2006, published on the Official Judicial Gazette on 6/19/2006, page 123).

Since the competitor tries to take advantage of inexistent exclusivity in order to obtain protection for common use signs (generic and descriptive trademarks), while trying to extend the effects of their rights, a misuse situation would be formed, with the clear intent of **preventing the entry of new agents in the market** (barriers to entry) or **increasing the rival's costs**. This conduct may be built on an anticompetitive *ratio*, with the purpose of preventing the

³⁰ CAVALIERI FILHO, S., Responsabilidade Civil, São Paulo, Saraiva, 2007, page 143.

access to the market to newcomers or of raising difficulties to the operation of an efficient competitor company. In this case, from the private interest point of view, the losses caused by the misuse of right must be compensated.

IX - Unfair competition

The unfair competition is directly related to the loss caused by the illegal client poaching. Thus, the undue enrichment is related to the civil liability in a trade activity-related situation, no matter if there is or not competition. In this case (unfair competition), such practice tends to be associated with winning a client by taking parasite-like advantage from someone else's investment in the scope of the relationship among competitors, and it may be related to unfair competition practices if it is used for client poaching in favor of a certain competitor, to the loss of another.

Therefore, it is not an exclusionary right, but a provision designed, in the same way as the civil liability, to grant a monetary compensation for a loss derived from the distortion in the form of winning clients. The legitimate party does not have certain powers inherent to the exclusionary rights, such as the *ius prohibendi*. In the end, the prohibition of unfair competition is equivalent, therefore, to a civil liability rule applied to trade, notably to industrial law (and, in several cases, intellectual law). Its scope of application does not allow the simple exclusion of third parties, but only the recovery of the investments damaged by the client poaching. It is not the exclusionary right that is in question, but **a financial compensation for the competition loss**.

Assessing the damage is not a simple task, and it is even more complicated in cases of goods produced by the creations of the human spirit. These creations may be materialized as creations of backgrounds, shapes and designs, on one hand, and literary and artistic works, on the other hand. Such conceptions may be subject to property attribution upon exclusionary rights or "legal monopolies" (not be confused with "economic monopolies"), which enable the creation of business methods based on rights, notably intellectual property rights.

The so-called new economy is an indication that the production of commodities and the industrial manufacture of products (corporeal material properties) are becoming less relevant in the so-called information society, in face of the technology and innovation markets.³¹

The technological property, or commercially valuable property mean

³¹From these markets, the dynamic competition resulting from intellectual property can be inferred.

a concrete economic expression with financial value, since the appraiser brings a differed sale to current value, i.e., a future sale that has not happened yet, and the appraiser has more than fifty mathematic methods available, which can be cumulative (they consider the cash flow, the market share, current and future sales revenue, marketing investment, market research about the consumer trust on the trademark, levels of intellectual protection, etc.). However, this is an economic valuation of the (future) purchase decision of the effectively and potentially captivated client.

Among the client captivation and market share conquest actions, in addition to investments in research, development and innovation, are the investment in advertising. It is known that investments in innovation do not mean automatic business success of the product that materializes the respective results (e.g., an invention of a process or product). On the contrary, a background creation, for example, a new technology for products or processes, does not necessarily lead to the acquisition of new clients. Accordingly, there are several patented technologies, or technologies protected by other exclusive rights, that have not generated any kind of commercial success, i.e., technologies that are available in the databases of national patent offices (the INPI of each country), which have not lead to an impact on the power to attract clients for their holders or possible licensees.

Therefore, the marketing actions have a direct or relevant connection with the commercial success of new products and services. In several sectors, advertising is a key element of the business plan.³² The protection to loyalty in competition has the purpose of protecting this investment (part of the global investment in IPR), avoiding client poaching made with the parasite-like benefit from another person's, the investor's and the entrepreneur's efforts.

In this context, the parasite-like profiting may occur with the

³²Sectors such as cosmetics, beverages and automotive, which depend on returns do scale, use advertising as a key element of their business methods. Investments for launching a new product and/or trademark are based on strong budgets. Notwithstanding that, advertising can be considered a "candidate for barrier to entry". *"Advertising is sometimes put forward as a candidate for barrier to entry." Massive advertising is said to create a consumer preference for existing brands that the new entrant an overcome only with still more massive advertising.*" See POSNER, R., Antitrust Law, page 326. Some authors claim this is not plausible. In that sense, some claim that it would be enough if the newcomer closed deals with retail distributors to fix its own trademark. However, this depends on the level of concentration, both in manufacturing and distribution. It cannot be ignored that the position of products on shelves and the advertising of trademarks in the big distribution chains represent a cost and are part of the business strategy. The levels of concentration and the economies of scale in the food distribution, in retail, are relevant for the analysis.

imitation of a competitor's product, with some comparative advertising acts (which, in Brazil, lack specific regulation), and also with advertising by association. But not in all situations; only in those restricted to the scope of subjective and objective enforcement of the rule.

The compensation of the investment is, therefore, financial, not monopoly-related. In jurisdictions where the unfair competition does not exist, there is a combination of institutes dedicated to fighting the illegal act, that is, the elements protecting the competitor from embarrassments to their rights, whether with the repression to undue enrichment, or the enforcement of civil liability rules and, sometimes, new categories of IPRs (such as non-original data bases). Both are jointly used to solve disputes.

The provision granting protection against unfair competition is article 195 of LPI (Law nº 9,279, of May 14, 2014). From the legal provision, we infer that the protection against unfair competition can never work as a perfect replacement for the exclusionary right (trademark, patent, design rights, etc.). As a necessary consequence, it is not possible to use this institute (protection against unfair competition) to “compensate” the lack of “exclusionary rights” over industrial property, in any circumstances: whether due to expiration of exclusionary rights, or by the business choice for the non-protection (cost, impossibility of registration, lack of other requirements for the protection of background, shape and signs concepts). As said before, the purpose of these provisions is the financial compensation for the loss, not granting monopoly shares that the legislator decided to not grant or extinguish. For the same reason, thus, the means to prove unfair competition acts on one hand, and trademark, patent, design or cultivar forgery on the other hand, are different.

A legal action for preventing the use and/or for damages usually combines requests of urgent remedies, which depend on prima facie evidence. Since there is a chance of error in all human relations and the capture is not impossible, it is not also impossible (even though rare) a mistake of the judging authority leading to the expelling of an efficient dominant company, of newcomers and of potential or actual competitors. Indirectly, in case of misuse, the active agent of the misuse of right may use a legal action as part of a strategy with the purpose of distorting commercial relationships, and possibly operate as an instrument to concentrate the market, excluding efficient competitors. In this case, depending on the size of the wrongly-excluded company (for example, a small business), no individual compensation is possible. Certainly, an isolated abusive exclusion may not be relevant for the most of the antitrust literature, but if this exclusion is a result, for example, of an organized practice (horizontal or by a monopoly), this exclusion may affect the whole market and it will be in the scope of enforcement of competition rules. Anyhow, the

protection of the public interest is possible upon enforcement of competition rules.

X - Violation of competition rules

i. Presentation

Holding intellectual property rights, since it leads to the grant of temporary exclusive rights³³ by the Government, causes controversies in literature, notably considering the rules about government intervention in market economies.³⁴³⁵ In said economies, the role of competition rules is mainly ensuring a competitive environment for business relationships, in order to ensure a larger number of products and services at lower price, to the benefit of consumers. Consumers are in the center of the system. Thus, no exclusionary rights can be justified without a gain for consumers. Therefore, the main focus is in the freedom of choice considering the variety of supply and the interaction among suppliers and purchasers, purging barriers to entry of new competitors and exclusionary conducts. For all that, imposing barriers to entry, in any way, is always a point of concern in term of competition policies. More than that, it is the rear sight of competition policies. In that sense, there is no antagonism regarding the intellectual property rights, but a concern with the misuse of any and all assets to impose barriers to entry, having a potential to create deformations in the market structure, or to keep the concentration levels inefficiently elevated.

As mentioned before, articulating competition rules and exclusionary

³³ BOTANA AGRA, Manuel, *Las licencias exclusivas sobre obtenciones vegetales no son necesariamente inconciliables con el artículo 85-1 del tratado de la CEE*, ADI, (8)1982, p. 427-430. BOTANA AGRA, M., *Las normas sustantivas del A-ADPIC (TRIPS) sobre los derechos de propiedad intelectual*, ADI, 16(1994-95), p. 109-162.

³⁴ HERNÁNDEZ RODRÍGUEZ, F., *Precios predatorios y derecho Antitrust*, Madrid, Marcial Pons, 1997, p. 19-20: “No se debe caer en el error de confundir la economía de mercado, tal y como se entiende en la actualidad, con la economía liberal típica del siglo XIX a pesar de que ésta sea, en gran medida, tributaria de aquélla. La economía de mercado constituye un orden económico, un principio organizado que es susceptible de múltiples variaciones y en el que tienen cabida desde el liberalismo más radical hasta la economía social de mercado. Lo que distingue y caracteriza la economía de mercado es la orientación de todos los procesos económicos hacia el consumo, que es el encargado de transmitir a los productores las directrices a seguir mediante valoraciones expresadas en los precios”.

rights, born from the grant of intellectual property, is a difficult task. Competition authorities still have not defined objective criteria in the Brazilian Antitrust System. There are no guidelines in this matter. The difficulty exists for not implying an impact between intellectual property and competition rules (alleged “congenital” incompatibility of purposes that does not exist, for part of the jurists), but for enabling the exercise of “intellectual property powers” that allow the holder to impose, in a legitimate way, exclusionary rights (in addition to the positive right to use, the *ius prohibendi*, or negative right of exclusion 36 of third parties³⁷), which can, in reality, mean an inefficient barrier to entry.

However, in principle, it is not a “free” barrier. On the contrary, there must be a compensation to the State, a consideration (to be paid by the right holder) for the social environment that created it (such legal monopoly that actually operates as a barrier to entry) and, in general, granted it specifically to the IPRs holder, which must meet certain requirements in order to obtain said “special powers” inherent to said intellectual property rights. It becomes even more clear considering the intellectual property roles.

In case of success in the market, the exclusivity will ensure to the holder the temporary market power to cause scarcity and, therefore, an abnormal profit. In principle, it is considered that the use of said exclusive rights may be used for promoting innovation, since it transforms free information, data, knowledge, etc., in a technology-carrying asset 38(or, at the end, an intellectual property asset 39). The power to exclude acts of reproduction or copies by imitation (but not by surmounting) generates a right to cause scarcity and, thus, we repeat, an abnormal price. This phenomenon is a result of the consumption rivalry caused by artificial scarcity. The attraction

³⁶GRAU-KUNTZ, Karin. *Propriedade Industrial e Direito da Concorrência: Caminhos para a Promoção e Desenvolvimento do Interesse Público*, International Conference for the 200 years of Intellectual Property in Brazil, 5th Panel, Ministry of Foreign Affairs (of the Federative Republic of Brazil), Brasília, 2009. Agreeing with this author, we understand that this power can be a *bunker for* protection against competitors. Let us see: “the exclusive right can be used by its holder as a ‘shield’ against competition. This ‘shield effect’, as we know, is not a mere consequence of the exclusive right, but an essential mechanism of exclusivity. So, we must ask, up to what extent can the holder enforce this ‘shield’ mechanism in the market?”

³⁷The *ius prohibendi* is a characteristic of the exclusionary rights. Accordingly, the *ius prohibendi* is not applicable in other situations set forth in the legislations for purposes of protecting the investment by protecting the loyal competition, which requires a financial compensation, the same way as the civil liability.

³⁸GRAU-KUNTZ, Karin, loc. cit.

³⁹ASSAFIM, J.M.L., *A transferência de tecnologia no Brasil: aspectos contratuais e concorrenciais de propriedade industrial*, Rio de Janeiro, Lumen Juris, 2005.

power of investments that IPRs may promote comes from there. The attraction of new entrepreneurs caused by the exclusive rights stimulates not only the static competition of products for the price, but also the dynamic competition for technologies and, more than that, the race for innovation (therefore, in addition to the static product markets, the dynamic technology market gain relevance, notably the innovation market). Such technologies, on their turn, must be associated with names with trademark function so they can be identified by the respective consumers.

Thus, the coexistence of new and competitor technologies becomes possible due to several factors, but mainly the “incentive” or “reward” of the grant of an exclusive right. In the high technologies market, it is important the existence of IPRs and the economy of scale (network externalities). Therefore, the entrepreneur activity is stimulated this way. The exclusive tends to generate certain positive externalities by inducing the dynamic competition (more and better products and services at lower prices), with incentive to the creation of new technologies, thus improving the so-called innovation market. The first player to come has an advantage. The impossibility of competition by imitation claims for the investment in innovation by the players and, thus, the creation of new technologies with the eventual dynamic competition. Of course, distortions are always possible to occur. But, distortions are exceptions if the control exists. This pro-competitive phenomenon is only possible in case there are policies for banishing misuse, i.e., fighting abusive barriers to entry that can eliminate or harm the competition by surmounting by efficient competitors, which is unjustifiable from the entrepreneurship perspective (those barriers that inhibit entrepreneur activities)⁴⁰ and worse, vectors for the elimination of competitors with anti-entrepreneurship restrictions⁴¹. The misuse case, then, consists of a deviation and, as such, must be fought by public policies on grounds of public interest.

⁴⁰However, some authors consider that in some sectors where the innovation activities and lobbies operating in favor of stronger protections are economically dominated by mega-corporations, the social and economic results can be different. The literature mention, for example, in case of computer software, the political-legislative choice of certain countries of not protecting such conception under patents as an element of safety for local developers. With that, local developer could become entrepreneurs in their market of origin, being sure that they would not be sued by an international corporation for the way they “wrote” their source code, or for a certain feature embedded in the solution.

⁴¹See Administrative Process CADE (Brazilian antitrust authority) n° 08012.0026732007-51. Complaint filed by Associação Nacional das Fabricantes de Autopeças – ANFAPE against the assemblers FIAT, Volkswagen and Ford.

*ii. Trademarks and Free Competition Law**ii.1. Problems derived from the exercise of trademark rights that affect free competition*

The trademark law protection is only applicable (or legally attributable) to a word or other sign that identify the designated good or service, distinguishing it from those coming from other manufacturers or suppliers⁴². The sign's distinctive power is the *mater* cell of the trademark law protection. Without this distinguishing character, we cannot talk about exclusionary right. The trademark applications filed by businesspersons and individuals in general before the relevant authority regarding signs without distinctive character must be denied, under penalty of appropriation of public domain. Alternatively, these signs may be registered trademarks, with reservations for being common use signs (use restriction that in Brazilian administrative practice used to occurs upon registration of a disclaimer in the trademark's registration certificate).

Unfortunately, there are system where the protection to common use signs has been treated with certain leniency by authorities, which leads to different decisions for the same situation, and poses serious risks of negative externality. Therefore, it is possible that the same sign devoid of distinctive power, in the same class, is subject to a series of applications and registrations, by different holders, with and without reservations.

The lack of distinctive power is harmful to the IP system, since the attributed sign (to which one intends to attribute the trademark role)⁴³ is 'incapable' of transmitting the necessary information to the consumer's research. If it was distinctive, the trademark would allow the consumer to identify the good or service (generated by prior consumer experiences with the relevant good or product, by the consumer or third parties). The lack of distinctiveness prevents the recovery of this kind of information used in the consumer's search (consumption research), making the research more expensive and, all things considered, the expropriation of the "standard" word allows the holder - the appropriation agent - to be able to define higher levels

⁴² Trademark protection is available only for a word or other signifier that identifies the underlying good or service and distinguisher it from that of other producers. LANDES, W.M. & POSNER, R. A., *The Economic Structure of Intellectual Property Law*, Cambridge / Massachusetts / London, Harvard Press, 2003, pages. 187-188.

⁴³ *Ibidem*. "Lack of distinctiveness would make the mark incapable of identifying the good and recalling to a consumer the information (generated by previous experience with the good by him or other consumer) that lowers his search costs and enables the producer to charge a higher price."

of prices.⁴⁴

The literature indicates, for the same reason, that no manufacturer or seller would like to take a free ride in a non-distinctive sign. There is no social and economic justification for this option. The incentive for taking a free ride would depend on the difference between the profits generated by the sign with trademark role (which presumably would be close to zero in cases of signs devoid of distinctive character), and the costs of duplication or reproduction⁴⁵. *Therefore, according to the literature, this case would be economically unjustified.*

However, LANDES and POSNER⁴⁶ indicate that the acknowledgement of these variables, as such, does not imply that the legal trademark protection (by exclusionary right) to signs devoid of distinctive character is harmless. A sign that does not distinguish (the trademark designation) one product from the other was likely conceived based on elements (words, colors, symbols and shapes) that are also used by other manufacturers of the product. Therefore, the legal protection of such sign (as a trademark) upon an exclusionary right would grant to the relevant holder the

⁴⁴ *Ibidem.*

⁴⁵ But this does not mean that giving legal protection to non distinctive marks would be harmless. A mark that does not distinguish on brand of a product from another is probably created from words, symbols, shapes or colors that are used by other producers of the product as well, and so legal protection of the mark would be likely to prevent others from using identifiers that they require in order to be able to compete effectively.

⁴⁶ “We can explore this point formally by expanding our H function for a particular producer that

$$H=H(T, Y, W, Z), \quad (10)$$

where Z denotes words used in common with other producers, such as “computer,” “electrical,” or “heavy,” that is, product rather than brand identifiers. In effect, equation (10) redefines W as an index of words for use as trademarks except those (Z) used in common with other producers. Because the Z terms describe features of the product as distinct from features peculiar to each producer’s brand, they tend to be limited in number. The variable Z combines with T to produce information that lowers search costs. Allowing a producer to appropriate a nondistinctive mark would enable him to force his competitor to remove Z from their labels, packaging, and product design. The result would be to shift the – H, X curve in Figure 7.2. downward and to lower T and raise H for those producers no longer permitted to use Z. The amount of X they produced would fall, shifting the supply curve of X to left. There would be a social loss because consumers would be paying higher prices for a smaller quantity. Our earlier example of a firm allowed to use “personal computer” as its trademark illustrates his point.” LANDES, W.M. & POSNER, R. A., *The Economic...*, cit.

right to exclude other efficient competitors from the right to use the identifying elements that would be necessary to compete in an effective way⁴⁷.

In Anglo-Saxon systems, the law could provide for an intended solution for this kind of problem by ordering Courts to examine the economic effects of allowing a specific manufacturer to have exclusive rights to exploit a particular trademark.⁴⁸ However, this solution would transform the entire trademark issue in an antitrust issue governed by the rule of reason. Certainly, the social and private costs initially pull this kind of solution⁴⁹ away in jurisdiction based on the Civil Law (notably in the Brazilian case). Nevertheless, it is clear that the exercise of some trademark rights is not immune to the antitrust analysis, as some people seems to prefer. On the contrary, the intention of appropriation of descriptive signs as a trademark by an economic agent, to the loss of the other competitors, denotes the perspective of loss derived from the “monopoly’s dead weight”.

Considering that the adverse allocation effects derived from the misuse of trademark rights are, in principle, substantially limited in order to increase research costs and consumers’ choice in a narrow class of activity (which also justifies the specialty principle, limiting the right to a certain class of activities), the poor distribution of resources potential would be smaller in

⁴⁷ “The law could try to solve this problem by having the courts inquire in every case into the economic effect of allowing a particular producer to have exclusive rights to particular mark. But then a trademark case could be like an antitrust case governed by a Rule of Reason. Such cases are very costly or even to settle, and the only thing that makes it worthwhile (both privately and socially) to incur these costs is the large private and social costs that some antitrust violations and some mistaken determinations of antitrust violations impose.” LANDES, W.M. & POSNER, R. A., *The Economic...*, cit.

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cases than in most antitrust cases. Consequently, the private participations in such restrictions would also be smaller.

The material difficulty in defining a criterion for the antitrust analysis for all situations involving trademarks has been making it hard for precedents to appear in antitrust authorities. However, the trademark legislations bring registration prohibitions for signs devoid of distinctive power and they granted protection to a limited number of activity classes - which brings the trademark registration rules closer to an antitrust rule of prohibition *per se*. In other words, the intent of appropriating generic and descriptive signs, in order to exclude competitors, is illegal. However, the appropriation intent regarding a sign devoid of distinctive character by a manufacturer, to the loss of their competitors, for not being justifiable from the economic point of view, must be subject to antitrust analysis, notably in concentrated markets (but not limited to this case). In this sense, the trademark coexistence or border agreement (*Abgrenzungsverbarung*)⁵⁰ between competitors is also in the scope of antitrust law. Notwithstanding this, the matters related to the pure imitation (of strong signs or signs having distinctive character) tend to not lead to antitrust issues, since they would be matters of private interest.

XI - Conclusion

The trademark right does not grant to its holder powers that are immune to antitrust analysis. On the contrary, the exercise of intellectual property rights falls into the objective scope of the competition laws. Even if the matters related to ordinary imitation do not have, in principle, the potential to affect costs of consumption researches, the intent of appropriating signs devoid of distinctive power can lead to the “loss of monopoly’s dead weight” if used in cases of abusive exclusions.

1. This appropriation intent of generic and descriptive signs, when taken into effect, tends to increase costs of consumption research by consumers, since a single supplier takes possession of the standard word. This phenomenon increases rivals’ costs, since they must make investments in the pursuit of new words to describe the category to consumers, not to mention the licensing and litigation costs.
2. During litigations, the manufacturers or sellers that want to exclude efficient competitors, preventing them from using generic and descriptive signs required for the effective

⁵⁰ RIßMANN, cit. Page 147.

competition (informing the consumer about consumption “alternatives”), tend to justify the exclusionary conduct with the investment made on the common use sign. This argument is based on a false premise, i.e., that IPRs protect the investment itself. According to this premise, the relevant economic agent would have invested in the descriptive sign with trademark role, and competitors would have copied the sign to take advantage from the investment.

3. However, this argument is not correct because intellectual property does not protect the investment itself (for e.g., marketing investment), notably when the manufacturer decided to invest in the sign devoid of distinctive character, and they cannot claim that they were unaware of the prior use of the common use sign by efficient competitors (whether with the use, or by the publication of requirements of previous registrations); the use by other competitors in the same market is entitled to some level of protection. This would be a classic case of bad faith: being aware of the binding fact at the time of the action.
4. The premise of the previous conclusion (number 3, claimed by the trademark applicant regarding a sign devoid of distinctive power) would, then, be false, for in said case, the agent could not claim being unaware of the fact that the generic and/or devoid of descriptive sign was of common use at the time of the investment decision. On the contrary, the generic character was the element that motivated the investment.
5. The literature associates this practice, by analogy, to the act of fencing a “real” (material) property. It would be like admitting, in case of **disturbance**, illegal act or invasion, a situation where the invader claims, in their defense during the action for repossession, the right of retention over the real property due to an **alleged improvement** (investment) made by the invader in a real property they knew belonged to someone else. The situation goes beyond the misuse of right, i.e., it is consistent with the characterization of bad faith.
6. This situation must be purged by the Trademark Board of the Brazilian PTO (INPI), which must deny registration applications involving signs devoid of distinctive power (or do so by using an express use restriction, such as a disclaimer), and must also dismiss Administrative Process for Nullity filed by holders of trademarks devoid of distinctive power against subsequent registrations filled by competitors that, in a

- legitimate way, intend to use (not exclude third parties from use) these common use signs to compete in the relevant market, ensuring alternatives, more products and services, and fewer research cost for consumers.
7. The stratagem tends to be more serious when the manufacturer uses more than one action, with different grounds and causes of action, frivolous or inexistent IPRs (patent application without examination, trademark application reproducing competitor's priority, etc., with a type of tool box) in order to exclude a single product, with abuse of petitioning right and with anticompetition effect.
 8. When a competitor intends to expropriate proprietary rights from other efficient competitors, thus subtracting from these competitors the powers granted to the public with the same conduct (expropriation of public domains), it tends to create a loss to the market, which by the increase of concentration, tends to impose to purchasers and consumers the scarcity and cost of monopoly's 'dead weight'. Best case scenario, the rival's costs will increase
 9. If the player seeks to exercise a right that, according to the legislation, said player does not have or should not have, and does so with the sole purpose of excluding efficient competitors or increasing rival's costs, this situation must be subject to antitrust analysis with the purpose of purging the anti-entrepreneurship distortion. Therefore, the situation involving signs devoid of distinctive power is identical to those in antitrust precedents, as the one in the Box 3 Vídeo/Shop Tour case.
 10. If the use trademark and other IPRs deserve protection of the IP system and the jurisdiction in order to provide dynamic competition, the misuse of IPRs may lead to anti-competition restrictions. Notwithstanding, this phenomenon is different from others existing in the commodities markets.
 11. Therefore, the analysis of this phenomenon (misuse of intellectual property rights) is inconsistent with the static analysis of price competition. The antitrust analysis criterion for IPR misuse situations must be subject to the dynamic analysis. In this way, according to the widely-accepted literature, the policymaker must develop criteria for this new analysis in order to face the challenges of the new economy.

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